Description : TABLING OF THE ADJUSTMENTS APPROPRIATION BILL
Date : 13 FEBRUARY 1998
Speaker : MINISTER TREVOR MANUEL

SPEECH BY THE MINISTER OF FINANCE ON THE TABLING OF THE ADJUSTMENTS APPROPRIATION BILL

Madam Speaker

Honourable members

The purpose for the submission of the Adjustments Estimates to Parliament is to request Parliament to consider requests for funds in addition to funds already appropriated in the Main Estimate, which was tabled in Parliament in March 1997.

These requests for additional funds are measured against the requirements of section 1 of the Exchequer Act, 1975, which specifies that requests be limited to:

- the shifting of funds between votes;
- the re-appropriation of monies appropriated by Parliament in the previous financial year but not spent;
- expenditure already announced in the Budget Speech but not allocated at that stage;
- unforeseen and unavoidable expenditure;
- other adjustments that the Treasury may deem necessary.

Allow me to reflect briefly on some of the developments that have taken place since the 1997/98 Budget was tabled in this House on the 12 March 1997. It has been a challenging year. The economy slowed down somewhat more than we had anticipated and we have accordingly had to revise downward our estimate of real Gross Domestic Product (GDP). We had assumed that GDP would grow by between 2 and 2.5 percent in 1997/98. We are revising this down to between 1.5 and 1.7 percent. Inflation has also fallen faster and further than initially anticipated. This is indeed good news for the economy and in particular for the poor and vulnerable who rely on fixed incomes.

In the past few months the world economy has had to deal with the crisis in the East Asian economies. Clearly there are many lessons to be learnt from the experiences of East Asia. Perhaps the most important is that the sustainability of policies is the key to successful economic development. On a positive note, the Rand has remained relatively stable and investors are looking to our country with renewed interest. Our stable exchange rate is testimony to sound fundamentals and our collective efforts to ensure sustainable growth and development.

Madam Speaker, one of the distinguishing features of the 1997/98 Budget was the significant reprioritisation towards social development and poverty alleviation. We also committed ourselves to maintaining the stability and integrity of macroeconomic policy through our commitment to a 4 percent budget deficit.

We should remind ourselves that we are involved in a national project of transformation. Its success requires on-going reprioritisation, a continued effort to improve what we do and how we do it; better use of resources; and constant improvement of our financial and information management systems. More importantly perhaps, it requires the unwavering commitment of the political leadership and a civil service dedicated to serving the public. The absorption of the RDP projects into the main budgets of departments and provinces reflects our commitment to the transformation exercise embodied in the Reconstruction and Development Programme. No longer is the RDP an add-on to budgets. Instead, budgets are being reprioritised in line with the objectives of the RDP. As the President stated in his opening address to Parliament, "(W)e have creatively to strive to meet our obligations within the context of a reduction of the public debt. Indeed, we cannot pretend that the deficit targets we have set ourselves do not test our capacity and will. But we cannot divert from the course we have chosen. There is no other route to sustainable development." Put simply, we have to no option but to succeed.

On the fiscal management side we have indeed learnt much and notched up some significant achievements. My colleagues in the National Executive deserve to be commended for their unwavering commitment to live within their budgets and to reprioritise expenditure. In this regard the South African National Defence Force warrants special mention for its sterling efforts despite a substantial cut in its share of the Budget. It has demonstrated that with will and effort reprioritisation is possible and it is indeed possible to release resources to meet the pressing needs of our people.

The policy goals of government are reflected not only in the national budget, but also in the budgets of provincial and local governments. The 1997/98 fiscal year was the first year in which provinces were given their equitable share of nationally raised revenues and were required to develop their own budgets. These shares were determined essentially on the basis of the formula developed by the Financial and Fiscal Commission. This formula is designed to achieve an equitable division of revenue between the nine provinces over five years. The formula comprises the following six components:

- *An education share*, based on the average of the size of the school-age population and the number of learners actually enrolled;
- *A health share*, based on the proportion of the population without private health insurance and weighted in favour of women, children and the elderly;
- *A social security component*, based on the estimated numbers of people entitled to social security grants;
- *A basic share*, based on the total population, with an additional 50 percent weight in favour of rural communities;
- *An economic output share*, based on the estimated distribution of gross geographic product (GGP);
- *n institutional component*, equally divided among the provinces.

The elements of the equitable division formula are not indicative budgets. The education, health or social security shares are not conditionally allocated to these functions. Provinces budget for these functions within their overall resource constraints. It is important to note that the national government does not control the details of these budgets. Rather it influences them indirectly through the setting of the nation's policy priorities. Given that education, health and welfare are the key elements of government's commitment to social development, it is expected that the largest share of provincial expenditures will be on these functions.

Our fiscal framework is new and evolving. The international experience with the decentralisation of large shares of public expenditure shows clearly that many of the teething problems we are experiencing are not unique to South Africa. It is widely recognised that one of the factors that can seriously undermine the success of a Constitution such as ours, which assigns the largest share of public expenditure to the provincial governments, is the lack of institutional capacity. In only four years we have had to develop and establish an entirely new fiscal framework, with new institutions, new rules, and new policies and instruments. The difficulty of the task has been exacerbated by the fact that we have had to do this whilst dealing with the excesses of the past. It is worth repeating that this is only the first year in which provinces were given their equitable shares of nationally raised revenue and required to draw up their own budgets.

There have been substantial capacity problems which have frustrated progress with implementation. In some cases, such as in our social benefits system there have been problems of fraud and ghost beneficiaries. In other areas where the exercise involved the amalgamation of more than one bantustan administration, we are still living with the problems of varied financial management systems and governments bloated by supernumerary staff. Significant capacity is required to successfully implement effective spending programmes and in some cases this capacity is still missing.

Despite all these constraints provinces have put a substantial effort into reprioritising expenditures focusing on improving management and delivery systems, implementing better financial management systems and greater efficiency and effectiveness overall. Most provinces have been able to establish a solid base on which to build transparent and successful fiscal management. This is evidenced by the fact that most provinces will not overrun their budgets.

Ultimately our shared objective is to ensure that our fiscal framework contains a transparent public expenditure management system including improved mechanisms for financial control, reporting and accounting, and the evaluation of expenditure programmes. The Medium Term Expenditure Framework (MTEF) which has now been developed goes a long way to achieving these objectives.

However, there are problems. Some provinces face irredeemable differences between revenue and expenditure. These differences cannot be dealt with through bridging finance. Rather they require structural changes which require both time and substantial capacity. The spirit of cooperative governance means that our collective efforts should go in to ensuring that all three spheres of government function efficiently and effectively. Collectively we cannot ignore structural problems and in the process weaken one or other sphere of government.

However, we also have to ensure that the focus remains on reprioritisation; on building capacity; on eliminating fraud in areas such as social security payments; on better management; on the development of a culture of public service.

The integrity of the overall fiscal system depends on our ability to understand that the Budget is a law in each sphere of government and that we all have an obligation to live within our budgets.

There have been frequent and intense interactions between the departments of Finance and State Expenditure and the provincial treasuries, as well as the national and provincial departments of education, health and welfare. Collectively we have tried to get a measure of the nature and the size of the problem we are dealing with. The MTEF process has also allowed us to understand the problems associated with the base year on which provincial budgets were developed.

We accept that many of the problems we are dealing with revolve around institutional capacity and that unless we tackle them now they will simply re-emerge at a later stage. Moreover, we have committed ourselves to transparency in fiscal management and we would be defeating this objective if we did not deal with these problems up-front.

To this end we propose to set aside a maximum of R1.5 billion to assist those provinces with critical problems. Since the objective is to assist provinces in building capacity as envisaged in Section 125(3) of the Constitution and to implement better expenditure management, accessing these monies will be done within the context of the provisions of Section 100 (1)(a) of the Constitution.

Section 100(1)(a) reads " (W)hen a province cannot or does not fulfil an executive obligation in terms of the legislation or the Constitution, the national executive may intervene by taking any appropriate steps to ensure fulfilment of that obligation, including – issuing a directive to the provincial executive describing the extent of the failure to fulfil obligations and stating any steps required to meet its obligations." The kind of action contemplated in Section 100(1)(a) includes measures such as assistance, support, advice and coordination as suggested by the cooperative governance chapter of the Constitution.

To comply with these requirements the national and provincial government will have to negotiate an agreement in the form of a directive to be entered into between the national executive and the provincial executive.

This agreement must include a detailed plan for achieving a reorganisation and rationalisation of the Provincial administration and services to bring expenditure commitments in line with available resources. The decision to act in terms of Section 100 (1)(a) shall be gazetted and made public by the President.

It is important to note that this is not a bail-out, nor does it reward those provinces that have not succeeded in managing their affairs within the available resource envelope. Quite the contrary, the package we are putting forward requires a substantial response from those provinces which feel that their problems are of such a nature that they need to access this money. This is also not about apportioning blame. It is about taking collective responsibility for ensuring that our fiscal system has integrity and that fiscal policy remains on track.

We express our admiration for those provinces who have succeeded in difficult circumstances to live within their budgets, thereby contributing positively to the transformation agenda. We believe that the problems we are now experiencing will, with courage, determination and collaborative effort be overcome.

Madam Speaker, this House is well aware of our attempts to reduce the level of roll-over funds. It was customary in the past to accept that the amount indicated in the Adjustments Estimate as roll-over funds would automatically be rolled-over into the next fiscal year. Strict rules were, however, introduced during 1997 to deal with this, and it was therefore possible to manage roll-overs down from R8.9 billion in 1996/97 to R4.8 billion in 1997/98. Early indications are that the level of roll-over funds will be managed downwards to R3.6 billion in 1998/99.

Where does this leave our deficit target of 4 percent? Without the R1.5 billion additional provision for the provinces and the reduction in the provision for roll-overs, we would have comfortably met our target. As I noted in my introductory comments we have revised GDP growth down to 1.5 percent for the fiscal year. Based on a revised GDP of R613 billion, the deficit, after taking account of the R1.5 billion for provinces and the lower roll-over allowance, will be 4.3 percent of GDP. This will mean that we will have managed the deficit down from 5.4 percent in 1996/97 to 4.3 percent in 1997/98. This is a significant achievement, one that has taken an enormous amount of discipline and commitment and something that we as a country should be proud of.

Madam Speaker, in the Budget we presented to Parliament on 12 March 1997 we budgeted for a total estimated expenditure level of R 186,746 billion. This was made up as follows: expenditure included in the first Printed Estimate (RP 2), or the so called "White Book", and the Supplementary Estimate (RP 4) totalling R 184,772 billion; less a saving of R 400 million due to a reduction in the employer’s rate of contribution to the government employees pension fund; plus expenditure of R 2,074 billion (included in this amount was a contingency reserve of R 1 billion) which was identified for inclusion in the Adjustments Estimates, and R300 million for standing appropriations. This was to be financed by total revenues and grants of R 161,976 billion resulting in a deficit before borrowing of R 24,770 billion or 4 percent of GDP.

The Adjustments Estimate placed before Parliament today seeks to increase total estimated expenditure to R 189,471 billion. Financing the additional expenditure will require an increase in the deficit before borrowing to R26,359 billion or 4,3 percent of the revised GDP of R 613 billion. The balance is dealt with through the revenues from externally funded services of R527,8 million; the decrease in standing appropriations of R 262,5 million and additional transfers amounting to R 450 million.

The detailed explanatory memorandum setting out the Adjustments Estimates for 1997/98 is tabled here today.

The Adjustments Estimate Bill we place before Parliament today is a further reflection of our commitment to sound and sustainable public finances. We believe strongly that the course we are steering in respect of fiscal management across the three spheres of government is the correct one.

To succeed, fiscal decentralisation requires a high degree of cooperation and coordination between the three spheres of government. In the second half of last year, Parliament passed legislation establishing the Budget Council and the Budget Forum. As 'Team Finance' my colleagues the MEC's for Finance and I meet regularly. The departments of finance and state expenditure also meet regularly with their colleagues in the provincial treasuries. We have also set up task teams on education, health and welfare which draw in the officials from both the national and provincial departments.

Better systems are key to successful fiscal management and a renewed effort will be made to improve both our financial and management information systems. Most important of all is the need to build capacity and here all South Africans and in particular the business community can play an important role.

Madam Speaker I would like to take this opportunity to thank the President, Deputy President and my Cabinet colleagues for their support and commitment to fiscal discipline. I would also like to thank my colleagues the MEC's for Finance. This has been a challenging year for "Team Finance", but I believe that collectively we can build a strong and sustainable fiscal framework. I would also like to express my appreciation to Deputy Minister Gill Marcus for her support and hard work. My thanks go also to the Departments of Finance, State Expenditure and SARS for commitment, dedication and hard work in what is a difficult and challenging environment. Last but not least, I would like to thank the Honourable Members of this Parliament, and in particular the Standing Committee on Finance, for hearing us out today.